

# NewsFlash

by Linda Swerling

**October 27, 2011** – Often, surviving the economic downturn comes at a great cost to the business. Increasing revenues offered this company an opportunity to re-establish strong operations and financial procedures to ensure a more stable organization moving forward.

## Recovering From the Downturn

### Situation

A firm providing outsourced technical services had grown dramatically in the period leading up to the recession. The family-owned business (a parent and 5 children) had \$3 million in revenue and 10 employees. While the downturn in the real estate market hit the firm particularly hard beginning in 2008, it managed to survive and the slide in revenue began reversing recently. The firm chose Level II Solutions to help it get back on track.

### Problem

It was necessary to take drastic action to stay afloat during the prior three years.

- **Location/Offices** – they moved into the smallest most reasonable space they could find.
- **Technology** – no upgrades or new purchases.
- **Salaries** – the mother and her children cut back their compensation to a minimal level.
- **Operating funds** – the family mortgaged personal property and used personal credit lines to keep obligations up to date.
- **Taxes** – believing the income was too low to warrant filing, they did not file either corporate or personal taxes. \*\*
- **Maintaining current business** – they continued to provide optimal service so they did not lose what little business there was.
- **Transitioning to next generation** – the firm needed to reduce dependency on the parent as well as create the financial resources to enable her to afford that cut back.

\*\* **Note:** *You should always file taxes on time even if you cannot pay what's owed. And, if you've been running at a loss, you're apt to have a loss to carry forward to profitable years.*

With the economy coming back, the firm wanted to focus on bringing the business back to its previous level. With operations already lean, they wanted to focus on marketing efforts but also wanted to re-establish a solid financial base from which to move forward.

### Solution

The first step was to put together a plan of action, with priorities.

- Get tax filings up to date and negotiate penalties and interest
- Design a tiered compensation plan to build family members back to previous levels.
- Create cash flow projections that allocates new money in the best way, e.g., pay down personal debt, then business debt, etc.
- Revisit roles and responsibilities.
- Upgrade the technology to be competitive in their field.
- Develop a strategy to move company from a C corporation to a structure that would provide greater tax benefits to owners
- Use the new structure to transition ownership to the children.

### Results

The essence of the plan was to focus on building revenue, paying off personal debt, and slowly increasing operating expenses.

- Hired a new CPA to catch up on the necessary filings and negotiate with tax agencies.
- Met individually with each employee to clarify roles and expectations and a new compensation plan.
- Shifted historical knowledge to the second generation.
- Monitored and adjusted cash flow to enable realistic decision-making.

The turnaround proceeded smoothly with everyone understanding his or her roles and the overall goal and working hard to achieve it.

*If you are part of a family-owned business and need help with a turnaround, please contact us at 617-277-0222 or [linda@level2solutions.com](mailto:linda@level2solutions.com)*